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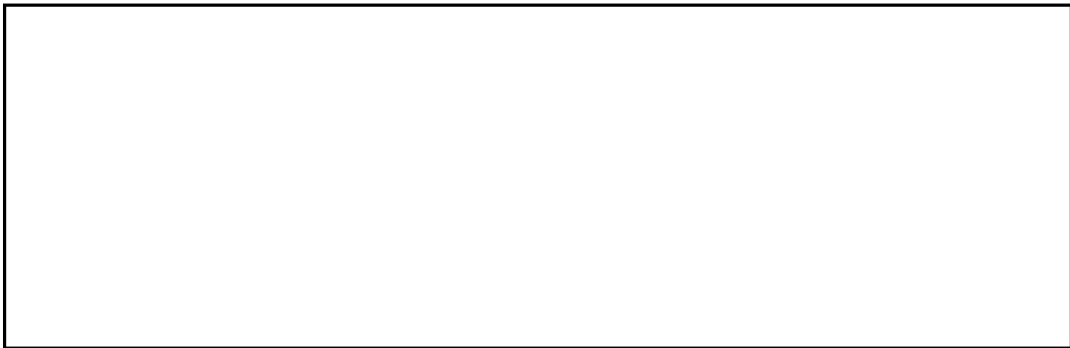
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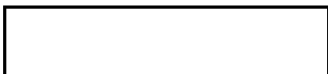
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PORTUGAL

Socialist Party leaders have announced their intention to remain in Portugal's coalition government, but the country continues to be torn by conflicts between moderates and radicals.

The Socialists have accepted the Revolutionary Council's settlement of the *Republica* dispute, but the truce may last no longer than the end of this week, when the paper is expected to resume publication. Leaders of the Communist-controlled printers' union have announced they will continue to try to force a change in the *Republica's* pro-Socialist editorial policy.

The military government has refused a Socialist suggestion to head off future troubles by transferring pro-Communist printers to other papers. The military insists that the workers themselves must request the change. The Socialists reportedly have begun court action against workers responsible for the attempted take-over of the paper in hopes of forcing them to resign and find other jobs.

Another press freedom controversy currently brewing appears likely to fuel a clash between the Armed Forces Movement and the Portuguese Catholic Church. Church spokesmen have threatened a showdown with military leaders if the church-operated radio station—partially occupied by Communist workers two weeks ago—is not restored to the control of ecclesiastical authorities. Catholic bishops are scheduled to meet sometime this week to discuss the dispute.

Lisbon Cardinal Ribeiro has told US embassy officials that a church-state confrontation is approaching. Not only did the government settle a prior take-over of the church radio station by appointing a "mixed commission" to run the station instead of restoring it to the church, but military leaders have also tried to control the curriculum of church-run primary schools and to halt subsidies to the church's welfare institutions.

Cardinal Ribeiro believes the Armed Forces Movement has lost the trust and confidence of the people as a result of its inability to halt the downward spiral of the economy, the renewal of fighting in Angola, and the disintegration of civilian and military authority at home. The church is wary of Communist attempts to infiltrate key sectors, but is awaiting the "proper moment" to intervene openly in domestic politics in order to avoid being labeled "reactionary."

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CHINA-PHILIPPINES

Peking has used the occasion of Philippine President Ferdinand Marcos' visit and yesterday's announcement establishing diplomatic relations between the two countries to point up Chinese concern over alleged efforts by Moscow to increase its influence in Southeast Asia.

The Chinese fear that the Soviets would attempt to take advantage of recent events in Indochina to improve their position in the area was reflected in the communique and was highlighted in Vice Premier Teng Hsiao-ping's speech at the banquet welcoming Marcos Saturday.

The communique includes a declaration by both governments to oppose attempts "by any country or group of countries to establish hegemony or create spheres of influence in any part of the world." This formulation has become a standard ingredient of Peking's anti-Soviet line. It has taken on added significance in recent months, however, because of the heavily publicized controversy resulting from Chinese insistence that the language be included in the Sino-Japanese peace treaty currently being negotiated.

Teng elaborated on the anti-Soviet theme in his banquet remarks. He complimented Manila for its opposition to "hegemonism" in recent years and pointed out that Southeast Asian countries had wide support for the plan to create a zone of peace and neutrality in Southeast Asia and for "barring superpower interference and contention" in the area.

Teng also warned that one superpower—the Soviet Union—was trying to seize the opportunity presented by the other superpower's—the US—recent "defeats" to expand its influence. Teng added confidently that Asian countries would not be fooled by Soviet "wiles and schemes."

On the subject of subversion, both the communique and Teng's speech go a bit further than the Chinese have been willing to go in the past, declaring that both sides condemn foreign aggression and subversion, as well as any attempts by one country to "control" another or interfere in each others internal affairs. Teng pledged in his speech that China would never "bully" another country. He also acknowledged that a country's social system can be decided "only by its own people," a thought that was repeated in the communique.

This slight shift may have been prompted by President Marcos' previously expressed concern that the Chinese might support Filipino insurgents, as well as by

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fears in other Southeast Asian capitals that recent communist victories in Indochina might create a situation where China, in order to compete with both Moscow and Hanoi, would seek to extend its leverage in undesirable ways. Marcos, in his speech on Saturday, referred to his unhappiness with "subtle forms of foreign domination or intervention," a comment probably directed—at least in part—at covert support of insurgencies.

The remaining provisions of the agreement to establish relations include what are now familiar terms. Manila "fully understands and respects" Peking's claim to Taiwan and agreed to break off all official relations with the Nationalists. Both sides agreed that citizens of one country who acquire citizenship in the other automatically forfeit their original citizenship—a formula for dealing with the overseas Chinese issue in the Philippines. The provision validates Manila's authority over ethnic Chinese citizens of the Philippines, but does not address the question of Chinese residents who are not Philippine citizens.

Peking now has official relations with two member countries of the Association of Southeast Asian Nations, and there are indications that Thailand will soon follow suit, perhaps as early as next month. Relations with Malaysia were established last year.

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ANGOLA

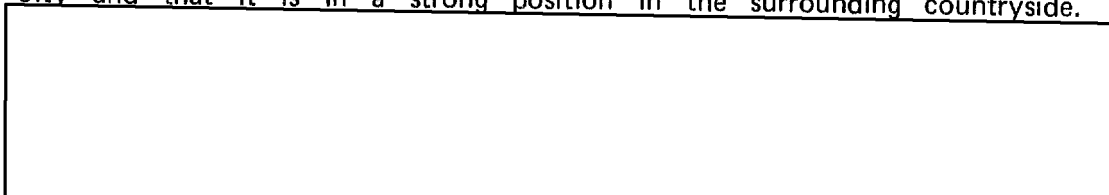
Fighting in Luanda, primarily between Angola's two main nationalist groups, subsided yesterday, and the city is relatively quiet for the time being. The Popular Movement for the Liberation of Angola, which started the latest round of clashes, apparently retains sufficient initiative to renew fighting at any time.

Forces of the National Front for the Liberation of Angola, however, performed better than they had in recent fighting in northern Angola and the exclave of Cabinda.

Casualties in the Luanda fighting number in the hundreds, according to press reports. The Portuguese army, which intervened somewhat more aggressively than on past occasions, lost at least three dead.

The National Union for the Total Independence of Angola, which has tried to stay neutral, was for the first time caught up in the fighting between its much bigger rivals and clashed briefly with the Popular Movement. Nevertheless, Union President Jonas Savimbi is not ready to align himself with the National Front against the Popular Movement. He was instrumental in arranging for the meeting of the leaders of all three groups, which the Kenyan government announced would begin on Sunday in Nairobi to try to stem the continuing drift toward full-scale civil war.

Meanwhile, representatives of the three groups are said to have signed a formal truce in Cabinda. The arrangement reportedly calls for each group to keep only a token military force in the exclave's principal city. It appears, however, that the Popular Movement has already succeeded in pushing the National Front from the city and that it is in a strong position in the surrounding countryside.



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AZORES

A roundup of Azorean separatists has taken place in Ponta Delgada, and a purge of Portuguese military officers sympathetic to the independence movement may also be in the works. Lisbon announced last night that 28 separatist leaders and sympathizers have been arrested and taken to a penitentiary on another Azorean island.

The US consul says that General Magalhaes—the military governor who emerged as something of a hero to Azoreans last weekend—is now rumored to be in a shaky position. Magalhaes, along with the police chief and an infantry battalion commander on Sao Miguel, are said to be in danger of losing their jobs because of their separatist sympathies. Magalhaes and the other two officers were harshly criticized in Lisbon radio broadcasts Sunday evening for their handling of the demonstration on Friday.

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USSR-MOZAMBIQUE

The Soviets have recently expressed increased interest in Mozambique. Last week, Moscow announced that it would establish diplomatic relations with Lourenco Marques on June 25, when the territory gains independence from Portugal.

The announcement follows a visit by a large Soviet economic delegation to Mozambique in April and a visit by a high-level Soviet merchant marine delegation in late May. During the latter group's stay, it toured several ports. While in Beira, a senior member of the delegation remarked on the need to improve that port's transportation facilities and said that talks would be held on economic assistance. He also noted the presence of a Soviet ship in Beira and said that others would be coming shortly.

After the delegation left, Mozambique's minister of transport and communications said the visit was informal and part of his country's efforts to seek aid from developed countries. Although only exploratory talks on economic assistance are believed to have been held, an official who met the Soviets said he would not be surprised if the USSR provided all the training for the new Mozambique navy after independence.

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TURKEY

The Turkish Senate voted last week to increase the new equipment budget for the armed forces by about 50 percent. Most of the money appropriated for 1975 had already been spent.

The US defense attache in Ankara reported in March that the trouble with Greece over Cyprus and the Aegean was causing an acceleration in spending for military equipment. He added that the US arms embargo had created an urgent need for buying non-US weapons systems and for developing a Turkish arms industry.

Ankara originally initiated a ten-year plan in 1972 to cover appropriations for updating the equipment in all services. It has now reduced the plan period to six years—covering 1973 through 1978—and increased the amount of money from \$1.4 billion for ten years to slightly more than \$1.7 billion for six years.

No provision apparently has been made for the revenues to cover these additional expenditures. The US embassy in Ankara questions the ability of the Turkish government—in light of other recent programs that have either increased expenditures or reduced revenues—to achieve economic and defense objectives without adopting a highly inflationary financial policy.

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INTERNATIONAL MONETARY DEVELOPMENTS

The ministerial group of the International Monetary Fund's interim committee meets in Paris today and tomorrow to discuss monetary reform and aid to the developing countries. The outcome of the meeting is likely to determine whether any substantive measures can be enacted at the Fund's annual meeting later this summer. The agenda includes discussion of reform of the Fund's charter to legalize floating exchange rates, the role of gold, and the redistribution of Fund quotas.

Most countries favor changing Fund rules regarding fixed currency parities, but there are differences about the degree of flexibility. Paris would like to return to the old system that requires countries to set fixed parities for their currencies in concert with the Fund, with countries allowed to float their currency only in exceptional circumstances and subject to prior Fund approval and conditions. Although many other countries prefer a system in which fixed rates are considered the norm, most of them generally favor US proposals that would allow countries to choose freely the exchange arrangements they prefer, subject to observance of a code of conduct that applies equally to all.

Most EC countries favor changing Fund rules to permit the organization to sell gold in the free market and to engage in gold transactions with members at market-related prices. The French are opposed to such changes, fearing this would be a move toward demonetizing gold. Paris wants the rules changed to allow the Fund to return its gold holdings to members at the official price—\$42 an ounce, or about one fourth of current market prices.

Most countries are against a US proposal that would allow the Fund to sell some of its gold holdings to support concessionary loans to developing countries. While favoring the effect the plan would have on demonetizing gold, Bonn fears the plan would eventually grow into a major facility that would provide too much liquidity to the developing countries. Paris, although favoring a concessionary loan plan, is against gold sales by the Fund to support it. Tokyo is not enthusiastic about such a facility, but will probably go along with the majority.

The members will also study options for re-allocating the Fund's quotas. Quotas are the major determinant of voting power in the Fund and are subject to review every five years. Last January, the interim committee agreed in principle to expand quotas by about a third—to \$48 billion—subject to agreement on a package of amendments to the Fund's articles and proposed doubling OPEC members' shares at the expense of the shares of the developed countries. Unless there are also changes in the voting rules, the quota changes proposed by the EC would eliminate the US veto. The EC countries are willing to change the voting rules and allow the US to retain its veto, but are pressing for a quota allocation that would have the US accept a 75-percent share of the reduction in the quota share of the developed countries.

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Prospects for an agreement on a quota-amendment package remain uncertain. While there is growing support for US views on exchange arrangements and gold, EC members may not be willing to override France's strong opposition.

**BELGIUM**

The Walloon Rally Party, the smallest member of Belgium's three-party coalition government, has rejected the government's decision to buy the US-made F-16 fighter aircraft. The Walloon Party, which would have chosen the Mirage, has said it will withdraw from the coalition if a majority of its deputies in parliament vote against the government in a confidence motion.

A confidence motion may come up later this week after the debate on the F-16's selection. The 97 opposition members in parliament, with the Rally's 13 members, are enough to deprive the government of a majority. If Prime Minister Tindemans squeaks by with the aid of some opposition support, the Rally's intention to withdraw would force Tindemans either to continue with a minority government or resign.

So far, Tindemans has succeeded in keeping his government together through manipulation and compromise. Despite the reluctance of most parties to hold early elections, the current issue will provide a severe test of the Prime Minister's talents.



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DOMINICAN REPUBLIC

The government has undertaken a sweeping crackdown on its opponents, in the wake of its claim that three Dominican terrorists clandestinely entered the country from Cuba on June 1.

Most of those arrested are members of leftist groups, but some rightists also were swept up in the dragnet. General Nivar, the chief of the national police, claims that only some 75 people remain in custody, but other accounts place the total at between 200 and 500.

Some opposition leaders and military officers believe the government has fabricated the story in order to justify a campaign of repression.

Rivalries between ambitious military officers may in part lie behind the sudden toughening of the government's attitude toward the opposition. General Perez y Perez, who has just taken over as secretary of the interior and police, suspects that his archrival General Nivar wants to impress President Balaguer with his zeal and thereby outflank Perez y Perez.

Now that the authorities have publicly claimed that the three terrorists have returned to the country, they will be under increasing pressure to apprehend them, or at least provide firm evidence of their presence in the Dominican Republic. If they cannot do so, the protests against the detentions are almost certain to increase. It will be very difficult for the government to maintain that the arrested politicians actually present any threat.

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BURMA: The government closed universities yesterday, as student demonstrations continued into the fourth day. A considerable number of workers joined in the demonstrations, despite the fact that the government has met some of the pay demands put forth in recent strikes. Although Rangoon so far is reining in its police and military forces, it could seize upon the reported distribution of communist leaflets by demonstrators to take repressive measures.



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ANNEX

Regional and Local Elections Will Be Held in Italy on Sunday

The nationwide regional and local elections in Italy on June 15 will provide the first good measure of party strengths since the parliamentary election in 1972. Voters will elect new officials in 15 of the 20 regions, 86 of the 94 provinces, and more than three quarters of the 8,000-odd municipalities.

Fragmentary evidence over the last year has seemed to suggest that the political balance is changing, and the elections, which will turn on national issues, should show whether:

- The Christian Democratic Party, Italy's largest, is in danger of losing its near-monopoly on political power.
- The Communist Party, Italy's second largest, has convinced more voters that it is a truly independent national party, committed to supporting Italy's multiparty democracy and worthy of participating in the national government.
- The Socialist Party, Italy's third largest, has enough popular support to back its demand for better treatment by the Christian Democrats in a future center-left coalition.

The elections on June 15 and 16 will also show whether the rise in neo-fascist support during the early 1970s was a passing or a more enduring phenomenon. The neo-fascist Italian Social Movement had been averaging about 5 percent of the vote in elections since 1948; it began to inch ahead in local elections in 1971 and reached nearly 9 percent in 1972.

An Uneasy Country

The political situation today is unsettled, even for Italy. Party leaders have not resolved the differences that led to the fall of the Rumor government last October. The Moro government—a coalition of Christian Democrats and Republicans that depends on Socialist and Social Democratic parliamentary support—has been in office since November, but is regarded, even by Moro, as a makeshift to keep the center-left idea alive and to get the country through the elections.

The political situation is complicated by Italy's chronic economic illness. The country is passing through its deepest postwar recession. Unemployment figures

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have not risen dramatically, but the true dimension of the problem is shown by industry's growing attraction to the shortened workweek. The cost of living is rising, though not as rapidly as last year. The balance of payments has improved markedly and is now in surplus, but this is not likely to impress the voters.

In addition, crime and political violence have spread. Scattered clashes between police and extremists were commonplace for years. Lately, however, the situation has taken a sinister turn. Attacks on party offices and politicians, bombings, and attempted train derailments have increased in number and seriousness.

Law and order has become a key election issue.

An Uphill Fight

The Christian Democrats are running scared. For years they were able to count on about 40 percent of the vote and on setting the terms for Italy's governments. Now, the voters are apparently beginning to blame the Christian Democrats for Italy's problems.

--Last summer, the Christian Democrats lost substantial ground to the left in a Sardinian election.

--Last November, in by-elections, they dropped about 6 percent—largely to the left; some of the losses came in key Christian Democratic constituencies.

--Last summer, they met an embarrassing rebuff in the national referendum on divorce. The Christian Democrats were against legalization, but legalization was approved by 59 percent of the electorate. The Socialists and Communists led the winning side.

Christian Democratic leader Amintore Fanfani has put together a platform aimed at bringing together moderate voters and encouraging defections from the far right. Fanfani is hoping, for example, to pick up support from right-wingers who helped swell the neo-fascist vote in 1972, but who may now be turned off by the neo-fascists' association with political violence. Fanfani is:

--Casting his party as the major champion of tough law-and-order measures.

--Playing up developments in Portugal to bolster his case against concessions to Italy's Communists.

--Rejecting Socialist demands for a bigger voice and reminding them that they can be replaced by the conservative, business-oriented Liberal Party.

--Calling for changes in Italy's tax law that would give lower-, and middle-income voters a tax break.

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Fanfani has managed in the last few weeks to get his party pulling together. Still, it is clear that the Christian Democratic left—about 20 percent of the party—remains unconvinced that Fanfani's approach will generate much response from the voters. They worry, in particular, that it will not sit well with the 3 million young voters who will cast ballots for the first time as a result of a recent law lowering the voting age to 18.

If the Christian Democrats take a beating, Fanfani will probably lose his job—and his policies will be re-evaluated. A number of rivals, such as Foreign Minister Rumor, are ready to step in.

Communist Stake

The Communist Party's tactics—and the perception of the party by non-communist Italians—have changed radically in the past five years. A week before the 1970 elections, the Communists were planning a massive anti-NATO rally in Rome, and the then prime minister—Mariano Rumor—was worried that the Communists would encourage labor violence to disrupt the economy.

Since late 1973, Communist chief Berlinguer has been saying that Italy's problems can be solved only through an "historic compromise" between his party and the Christian Democrats that would eventually bring the two together as governing parties. The Communists now say they have no trouble accepting Italy's membership in NATO, and their policy of "soft" opposition has encouraged labor moderation and helped keep the economy afloat.

The Communists' reputation is improved, but doubts persist about the party's claim to be an independent national party committed to the Western democratic way.

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Berlinguer has publicly criticized the Portuguese Communists' tactics, including their move against the Portuguese Socialist newspaper. He has reasserted his independence from Moscow by giving the Soviet delegates less than special treatment at the recent Italian party congress, dropping a known Soviet favorite from the party secretariat, and drawing closer to President Tito of Yugoslavia.

If the "historic compromise" is ever to be, the Communists must demonstrate their strength at the polls. The Christian Democrats are not likely to make any sort of deal, even at the local level, with Berlinguer unless forced to do so in order to remain in power.

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Ambitious Socialists

The Socialists also need to win big if they are to realize their hopes of emerging from the elections strong enough to change the terms of their participation in center-left coalitions. What the Socialists want are concessions on a new government's program; allotment of more important ministries—especially defense, interior, and treasury; more patronage power in the public sector of the economy, heretofore the almost exclusive preserve of the Christian Democrats; and a reduced role for the smaller center-left parties.

One thing in the Socialists' favor is that not all Christian Democrats reject these Socialist ambitions as flatly as Fanfani. Some, including Moro, see closer relations with the Socialists as the best way to keep the Communists in the opposition.

One by-product of the Socialists' need for a big win is heightened competition with the Communists. Just a year ago, the Socialists were straining the coalition with calls for a direct Communist voice in the government. They have backed off, and the Communists are accusing the Socialists of being more interested in power than in developing solutions to substantive problems.

The Key

The key to the elections lies in who will benefit most from losses sustained by the Christian Democrats. If the Christian Democrats drop only one or two percentage points, they will probably continue to dominate the government, at least until the next national election. But a switch of, say, three or four points from the Christian Democrats to the Socialists would enable the latter to drive a hard bargain in the negotiations for a new coalition. Similarly, Communist gains at Christian Democratic expense would result in growing demands by the Communists for collaboration between the two parties, beginning at the local level.

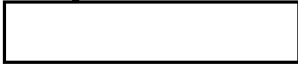
There appears to be little prospect at this time of sizable Christian Democratic losses to the far right.



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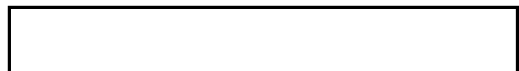
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